

## STRATEGY, INVESTMENT AND SUSTAINABILITY COMMITTEE

The Strategy, Investment and Sustainability Committee plays a key role in advancing LUKOIL Group's sustainability efforts. The number of matters related to sustainable development on the Committee's agenda has risen significantly. All relevant matters put before the Board of Directors are first considered by the Committee. In the reporting year, the Committee also considered the development of investor relationships, implementation of functional programs, and a cost-saving program.

## AUDIT COMMITTEE

Key matters discussed by the Committee members in the reporting year concerned the systematization of anti-corruption measures, external assessment of a PJSC LUKOIL internal audit methodology, as well as further improvement of the risk management system. An independent assessment of the internal audit was conducted.

The Board of Directors charged the Committee with the drafting of an Anticorruption Policy, an internal regulatory document which will systemize the Company's anticorruption position and outline the anticorruption framework, goals and objectives.

## HUMAN RESOURCES AND COMPENSATION COMMITTEE

Matters discussed by the Committee at its meetings included, among others, processes related to personnel management, improvement of the compensation and incentive system for the Company's senior executives, effectiveness of prevention measures ensuring that employees' labor rights and interests are respected, and the results of a staff morale and motivation survey conducted at LUKOIL Group entities. Committee

members also considered issues pertaining to the implementation of ethical standards and analyzed feedback from employees on those issues.

The Committee conducted an analysis of matters related to the external assessment of the Board of Directors' performance in the reporting year and made a decision to consider the feasibility of implementing the external assessment.

Full information on the Board committees' activities is available in the Company's Annual Report for 2019



For more details see p. 108

## SUSTAINABILITY TASK FORCE

As the volume of reporting information continually grew, sustainability reporting standards expanded and became more complicated and, especially given the need to enhance relations with all groups of stakeholders, the functions of the Task Force were expanded in 2019 resulting in its renaming.

In 2019, the Sustainability Task Force conducted four meetings. Toby Gati, an independent member of the Board of Directors, and experts on various sustainability areas were present at some of those meetings. Among other things, the following issues were examined in 2019:

- methodology for identifying material topics of the Sustainability Report
- reporting boundaries
- legal regulation of climate change matters in Russia
- assessment of reporting boundaries and preparation of a GHG emission inventory
- the framework for and stages of preparation of the Report
- development of Regulations on the Preparation of a Sustainability Report
- feedback from investors.

To strengthen the competencies of the Task Force members, a workshop titled "The outlook for legal regulation of sustainability matters in the Russian Federation after the ratification of the Paris Agreement" was held to which independent experts from KPMG were invited.

With the active involvement of the Corporate Secretary, the level of informing the Board of Directors and management on the most relevant issues of sustainable development for stakeholders was increased.

In particular, meetings<sup>1</sup> with a representative of Hermes, an investment fund participating in the Climate Action 100+ initiative, were organized where the goals of the initiative and investor's informational expectations were discussed with Task Force members. An expert on climate reporting with a solid track record with CDP presented current projects to monitor corporate activity in mitigation and adaptation to climate change.

The Company is stepping up its efforts to raise awareness of stakeholders about LUKOIL Group's position on and contribution to the attainment of the United Nations' Sustainable Development Goals. A brochure "Contribution to the Attainment of the UN Sustainable Development Goals" was published by LUKOIL.

The Company plans to continue its efforts to implement a sustainability management system, including the adoption of the following documents in 2020:

- Anticorruption policy
- Program for Development of Renewable Energy Sources
- Regulations on the Preparation of a Sustainability Report.

LUKOIL will also keep working to ensure Company adaptation to climate change.

<sup>1</sup> The meetings took place in January-February 2020.

## HEALTH, SAFETY AND ENVIRONMENTAL (HSE) COMMITTEE OF PJSC LUKOIL

The Committee is an effective mechanism for liaison between the Company's management and functional and linear divisions of PJSC LUKOIL and LUKOIL Group entities on industrial, fire and environmental safety, health and accident prevention.

The Committee was established in 2016 to advance the HSE management system in LUKOIL Group and is led by Ravil Maganov, a member of the Board of Directors, thus ensuring communication of health, safety and environmental matters to the Board of Directors. The Board of Directors is presented annually a report on the state of the management system in those areas, and the results of activities and initiatives undertaken to improve the management quality and speed of decision-making.

The Committee holds meetings twice a year. The first meeting is held to consider material risk registers

for LUKOIL Group in HSE issues, as well as regulatory developments in countries where LUKOIL is present. Those factors are subsequently taken into account during the development and implementation of target programs. The second meeting is devoted to taking stock of progress of health and safety programs for the reporting

year, making plans for the future period, and considering initiatives to promote a culture of safety at the Company.

In 2019, the Committee took several decisions to further promote a culture of safety and leadership culture and to introduce changes to target programs for 2020-2023.

### Snapshot of the Health, Safety and Environmental (HSE) Committee of PJSC LUKOIL (2019)

NUMBER OF MEMBERS	11	
COMPOSITION	VICE PRESIDENTS including those who are members of the Board of Directors	10
	HEADS OF DEPARTMENTS	1
NUMBER OF MEETINGS	2	
NUMBER OF MATTERS DISCUSSED	7	

## EMERGENCY AND ACCIDENT WARNING SYSTEM

The Company has a system for monitoring, warning, communication and reporting on emergency situations and accidents covering all levels of management of LUKOIL Group, including the Board of Directors and the Health, Safety and Environmental Committee of PJSC LUKOIL.

The functioning of the system is regulated by standards and local regulations developed on the basis of legal requirements.

In order to improve the efficiency of PJSC LUKOIL's response to potential accidents

with risks of serious consequences (death of employees and significant damages), the Operational Headquarters was established<sup>1</sup> to deal with accidents at hazardous production facilities of LUKOIL Group entities.

## CORPORATE SECRETARY

Corporate Secretary Natalia Podolskaya pays significant attention to sustainable development matters. Taking into account that sustainable development is identified as one of the goals of LUKOIL Group's strategic development, the Corporate Secretary is committed to supporting the initiatives of the Company and encouraging the practical application of expertise and exceptional competencies of the Board of Directors members in this field. As a result, Natalia Podolskaya facilitated the participation of Leonid Fedun, a member of the Board of Directors of PJSC LUKOIL,

Vice President for Strategic Development of PJSC LUKOIL, and Toby Gati, an independent member of the Board of Directors, in active work to improve the sustainable development system.

The Corporate Secretary is actively involved in coordinating the preparation of the sustainability reporting of LUKOIL Group and interacts with the relevant structural divisions of the Company, as well as with members of the Strategy, Investment and Sustainability Committee of PJSC LUKOIL's Board of Directors. Special focus is placed on the formulation

of the agenda and preparation of meetings of the Sustainability Task Force, including the invitation of external experts and representatives of various stakeholders to the meetings.

In order to promote stakeholder engagement, the Corporate Secretary deals with incoming requests using all available information channels: mail, e-mail, and a dedicated internal portal of the Sustainability Task Force. All requests are processed and discussed with structural units with the subsequent provision of comprehensive information on requests and proposals received.

<sup>1</sup> Order No. 48 of PJSC LUKOIL dated 23 March 2015

## SUSTAINABLE DEVELOPMENT AWARDS IN 2019



For the second year in a row, PJSC LUKOIL ranks first

in the ESG rating managed by the rating agency RAEX. The rating evaluates the way in which environmental, social and managerial risks of a company are taken into account in its strategy and management, which indicates the long-term sustainability of the business.



Based on evaluation results, LUKOIL Group's

Sustainability Report for 2018 was the prize winner in the RSPP nomination for "The Best Report on Corporate Social Responsibility and Sustainable Development" in the Moscow Exchange's 22nd Annual Report Competition in 2018.



PJSC LUKOIL was one of the winners of the contest for the best socially responsible oil and gas companies of 2018.

Results of the contest were announced at the Ninth International Gas Forum in Saint-Petersburg. The contest is organized by the Ministry of Energy of the Russian Federation. The Company was awarded certificates for the development of charitable activities, for the best public non-financial report by an oil and gas company, and also won a certificate with a special badge of the Russian fuel and energy complex for its active social policy.

## RISK MANAGEMENT

The Company's management places considerable emphasis on risk management issues to provide reasonable assurance as to the achievement of strategic goals in the face of uncertainties and negative factors.

PJSC LUKOIL regularly identifies, describes, evaluates and monitors possible events that could adversely affect the Company's activities, develops measures to prevent their occurrence or to minimize the negative impact in case such events occur. The Company constantly works on the identification and assessment of new risks and on updating relevant information in the corporate information system.

LUKOIL Group's Risk Management and Internal Control Policy sets forth unified and mandatory basic principles and approaches to organizing the risk management system of the Company, and the key objectives of the system, as well as key tasks of the risk management system participants at PJSC LUKOIL.

Key sustainability risks include:

- climate change risks
- health, safety and environmental risks
- risk of shortages of qualified personnel
- reputational risks.

Certain steps were taken to enhance the risk management system in the reporting year.

- Work continued to improve the practice of accounting for risks when making key investment decisions.
- Draft internal regulatory documents were prepared and forwarded for approval. These were developed with the aim of strengthening the risk management system at LUKOIL Group entities in accordance with PJSC LUKOIL Risk Management and Internal Control Policy, as well as improving the Company's investment activities and corporate governance.

Risks are managed at all the levels: at the level of LUKOIL Group entities, PJSC LUKOIL and at the level of the Board of Directors. Information on the risk profile of LUKOIL Group entities is included in annual reports which are reviewed

by the Board of Directors of PJSC LUKOIL and the Audit Committee of the Board of Directors of PJSC LUKOIL.

Sixteen groups of the most significant risks affecting the business activities of LUKOIL Group entities were identified. The qualitative and quantitative assessment of such risks is carried out annually according to risk probability criteria and criteria on the magnitude of the consequences. Risk appetite was defined for each material risk, and measures were developed to mitigate or eliminate their negative impact. The staff of the Risk Management Division and relevant blocks monitor the implementation and effectiveness of the measures.

By reporting the risks identified, we inform stakeholders about certain circumstances that may worsen the performance of the Company with some certain probability. At the same time, PJSC LUKOIL is making due efforts to minimize the risks associated with its own production activities in the regions of where the Company operates.

The text of PJSC LUKOIL Risk Management and Internal Control Policy is available on PJSC LUKOIL website at:

